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SUBJECT: MINISTRY ROUNDTABLE HIGHLIGHTS NEED FOR INFRASTRUCTURE
FINANCING

REF: A) Dar es Salaam 154

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¶1. Summary: On April 23, the Ministry of Infrastructure Development (MOID) hosted a roundtable discussion focused on the current state of infrastructure and infrastructure financing in Tanzania. The meeting, co-chaired by Omari Chambo, Permanent Secretary, MOID and Enrico Strampelli, EC Head of Cooperation, was well attended by GOT officials, donor countries, and the private sector. Main conclusions were: a) that Tanzania ranks poorly in essential infrastructure even among other low income countries (LICs); b) that port congestion is one of the most pressing constraints; and c) that Tanzania currently underfunds infrastructure development and strengthening domestic capital markets is necessary to meet funding requirements. Although the need for infrastructure development and the difficulties associated with the port of Dar es Salaam are well known, the MOID roundtable marked the first time that integral sector stakeholders focused specifically on financing options. End Summary.

¶2. A presentation by the World Bank underlined Tanzania's poor performance in infrastructure development and maintenance, even relative to other LICs. Only 10 percent of the population has access to power while, within the LIC group as a whole, it is 15 percent. Tanzania's piped water supply and access to clean water has actually declined over the past decade. Within the ICT sector, the country has very limited international bandwidth - only 2.7 Mbps/capita in contrast to 5.8 Mbps/capita for LICs as a group (although this will likely change when the Seacom and EASSy undersea cables are operationalized). While progress has been made in roads, the goal to pave all trunk roads by 2018 is now 10 years behind schedule, and the poor condition of railways contributes to significant road damage as bulk cargoes suitable for rail transport are diverted to road routes on heavy trucks. Finally, the port of Dar es Salaam is far underperforming. Increased congestion has forced shippers to use alternative ports, depriving Tanzania of revenue.

¶3. A second World Bank presentation detailed the challenges arising from the extreme congestion at the port of Dar es Salaam. It identified four main causes of congestion - lengthy customs clearance procedures, storage of containers in the port, difficulties of container off-take, and generally inefficient use of space. Lengthy dwell times result in significantly higher costs for shippers thereby decreasing the attractiveness of using Dar as a port. The cost of freight constituted 21 percent of the value of containerized merchandise in 2008, 2-3 times more than the average

in other LICs and 5 times more than world averages. The port of Mombasa handled 16 million metric tons of cargo last year, far surpassing the 7 handled in Dar.

¶4. According to the presentation, port authorities and stakeholders must take remedial action to remove containers from the port, prevent recurrence of congestion, decrease dwell time, and invest in systems that will continue to improve the capacity of the port. Specifically related to infrastructure, it stressed improvement of the rail system to facilitate container movement (re-laying the railway tracks into a loop layout to replace the current first-in-last-out configuration); improved road access to the port by widening the main port road; and investment in more or better ship-to-shore gantry cranes. The presenter stressed that investment in infrastructure was only one part of the solution. Relevant stakeholders must also make a series of managerial improvements, without which it will be impossible to find a sustainable solution to the congestion. Comment: While some of the specific investment recommendations are new, the overall analysis of Dar's port needs is widely shared among users of its services and donors(See ref A). End Comment.

¶5. In recognition that structural improvements in Tanzania will be impossible without increased investment, Yuzuru Ozeki of Japan International Cooperation Agency (JICA) presented an overview of infrastructure financing in Tanzania as well as several alternative means of financing infrastructure development. Tanzania's funding needs for water energy and transport over the next 10 years total USD 34 billion, or approximately 15 percent of GDP. The country currently spends about 10 percent of GDP on infrastructure, leaving a 5 percent gap. If recurrent expenditures and implementation shortfalls are included, the true funding gap may be closer to 10 percent. Insufficient investment in infrastructure, he said, should be viewed as an opportunity cost in the form of lost income and

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lower standards of living, health, and welfare.

¶6. Ozeki emphasized the importance of developing the capacity of Tanzania's domestic capital markets including the creation of long term benchmark securities, opening government bond markets to foreign investors, and continuing pension regulatory reform to foster a domestic long term investor base. Given the large infrastructure funding gap, he recommended that Tanzania develop and implement a legal and institutional framework for public private partnerships (PPPs) in order to attract private sector funding for priority infrastructure projects in key sectors. He also mentioned sovereign bond funding as a possible future alternative which was not currently viable given the continuing global financial crisis. In the ensuing discussion of the presentation, US Treasury Advisor concurred with the importance of domestic bond market development and pension reform and highlighted the usefulness of opening the domestic government bond market to foreign investors as a means of accelerating long term bond market development. Finally, he mentioned that PPPs were only one mechanism for attracting foreign investment and that other means should also be pursued.

ANDRE